AFMC Sustainment Transformation

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Logistics Transformation

Air Expeditionary Force

Agile Combat Support

Maintenance/Sustainment

20% ↑ in aircraft availability

10% ↓ in O&S cost

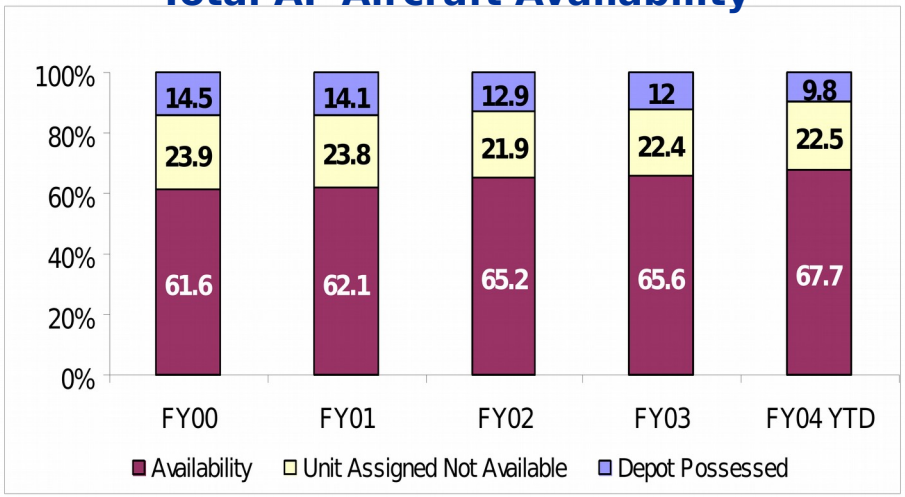
50% ↓ in sourcing cycle time
20% ↑ in supply material availability
20% ↓ in material purchase and repair

100% on time delivery
↓ flowdays 25%
↓ costs 10%

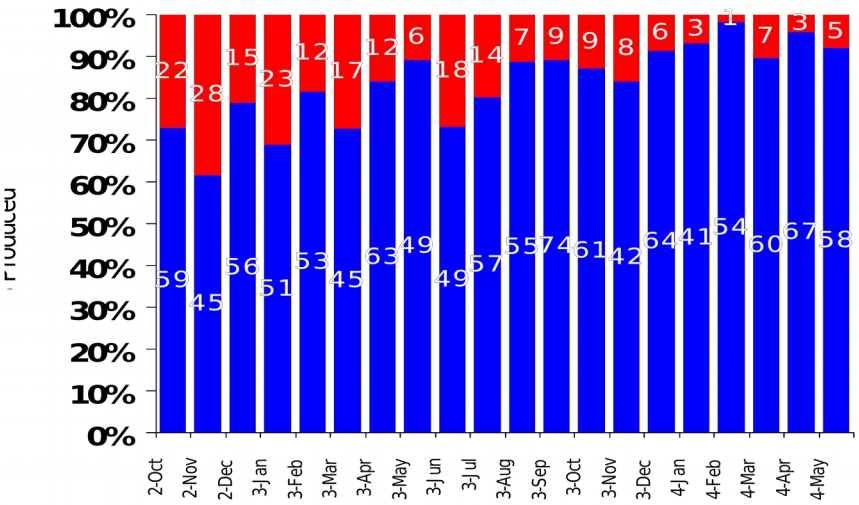
e view transformation as one of our principle missions…from headquarters down to de
d our acquisition of major systems and the conduct of operations." AF Secretary Roc

Sustainment Performance

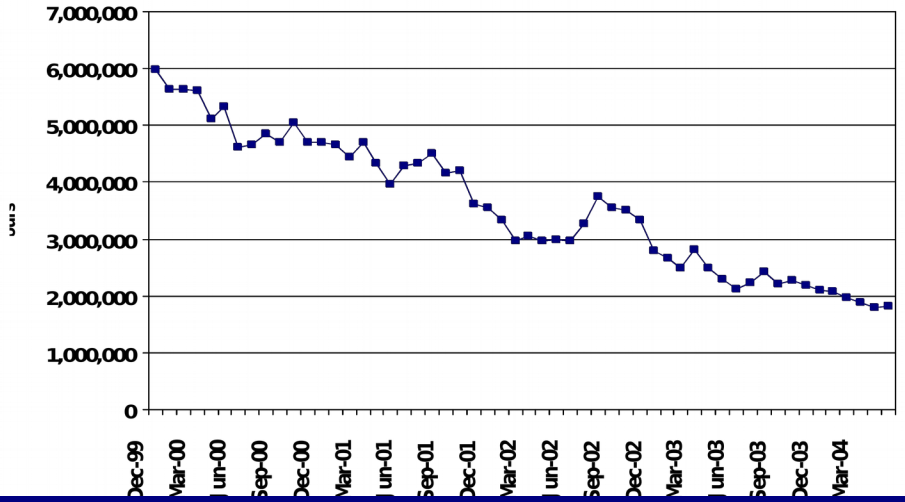
Total AF Aircraft Availability



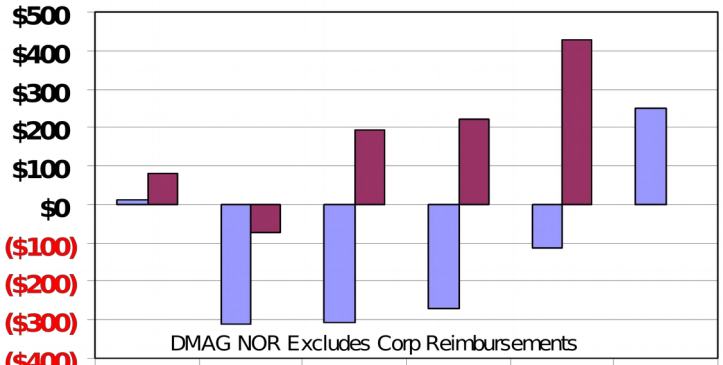
Total AF Aircraft On-Time Delivery



Total AF MICAP Hours



SMAG & DMAG NOR



	FY99	FY00	FY01	FY02	FY03	FY04
DMAG NOR	$13	($313)	($308)	($272)	($114)	$250
SMAG NOR	$80	($74)	$193	$222	$427	$0

War-winning capabilities...On Time, On

AFMC Supply Business Area (FY03)

Organic & Contract Depots

Oklahoma City ALC · Ogden ALC · Warner Robins ALC
HEROUX DEVTEK · THOMAS INSTRUMENT · Honeywell · DECRANE AIRCRAFT Specialty Avionics Group · BAE SYSTEMS

$3.3B Repair Orders

$1.4B Buy Orders

760K Items Delivered $3.2B

1.7M Items Delivered $1.37B

Manufacturers

BOEING · NORTHROP GRUMMAN · LOCKHEED MARTIN — We never forget who we're working for™

AF Supply System

Net Sales
$5.76 Billion

DEPOT	AIR FORCE	ARMY/NAVY/TRANSCOM	FMS

PSCM Value Proposition

Optimize Inventory Levels

Fewer Contracts Optimized Supply Base

Eliminate NVA Transactions & Cycle Time

Organic & Contract Depots

Streamlined Order Agreements

Strategic Partnerships

Manufacturers

Jointly Forecasted Requirements

AF Supply System

Jointly Forecasted Production & Deliveries

Demand Reduction Lower Inventory Levels

Lower Unit Prices

Lower Supply Chain Cost

Commodity Schema Development Steps
Collaborative Approach

Feb 04 — **Final ESG review**

Jan 04 — **Benchmarking to validate Schema**

Dec 04 — **Reworked Groupings With ALCs**

Nov 03 — **ESG Review of Proposed Commodity Grou**

Nov 03 — **ESG Approval of FSC Based Grouping**

Nov 03 — **ESG Approval of Selection Criteria**

Oct 03 — **Alternatives for grouping MSD and Support Equipment items**

Sep 03 — **Conducted enterprise spend analysis for MSD and Support Equipment**

Commodity Councils

Commodity Group	Lead ALC	ALC	GEs	Stock #s	# Contracts	# Contract Actions
Aircraft Accessories	OC	ma City		3417	2148	3136
Aircraft Engines	OC	ma City		3121	1689	4018
Aircraft Structural	W-R	-Robins		2358	1148	1591
Communications Electronic	W-R	-Robins		11138	4271	7111
Instruments	OC	ma City		1862	1128	1576
Landing Gear	OO	den		1034	905	1154
Secondary Power System	OO	den		253	180	253
Support Equipment	W-R	-Robins		3641	4159	5106
TOTALS		3349		26824	15628	23945

Commodity Council Roles

Materiel Governance Board

Co-Chairs : AFMC/PK & LG

ALC/PKs and CSW Director

Governance

- Set overall CC objectives and goals
- Approve CC strategies, plans and measurements
- Evaluate on-going CC performance

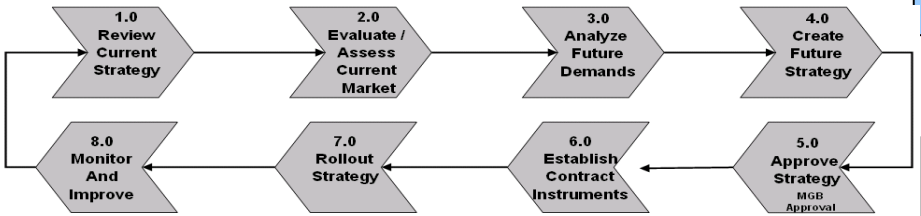
Policy

Commodity Council Director
- Executes CC Mgt
- Formulates Accountable for CAMP
- Accountable for Goals

Procurement Manager
- Develops contract and sourcing strategy
- Executes contract

Sourcing Supply Analyst
- Conducts spend and strategy analysis
- Develops/manages Supplier Scorecards

Commodity Council Deputy Director
- Manages council
- Coordinates the matrix support team
- Responsible for assembling the CAMP
- Goals and Stds POC



Commodity Sub-Council Manager
- Manages commodity sub-group
- Formulates strategies for sub-group

Commodity Supply Chain Analyst
- Commodity SC Strategic Planning
- Continuous Process Improvement POC

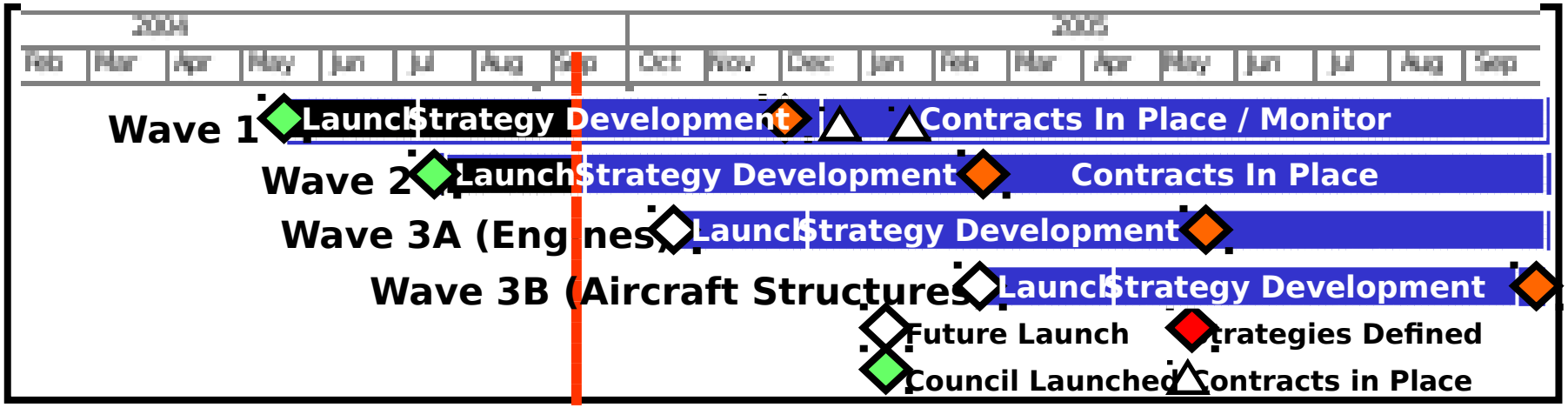
Data Specialist
- Performs data analysis
- Ensures quality and availability of data

Business Requirements Analyst
- Customer Relations POC
- Interpret customer needs

Commodity Expert
- Engineering and technical expert
- TDA + Engineer
- Commodity Standardization

Market Intelligence Analyst
- Research, analyze and interpret market research
- Builds knowledge repository

Commodity Councils Launched



Accomplishments:

✓**Wave 1 Stand-up**

- **Aircraft Accessories, Landing Gear, Support Equipment**

✓**Wave 2 Stand-up**

- **Instruments, Power Systems, Electronics/Communications**

✓ **Material Governance Board stood up**

- **Initial commodity strategies validated**

✓ **Commodity council implementation & support strategy developed**

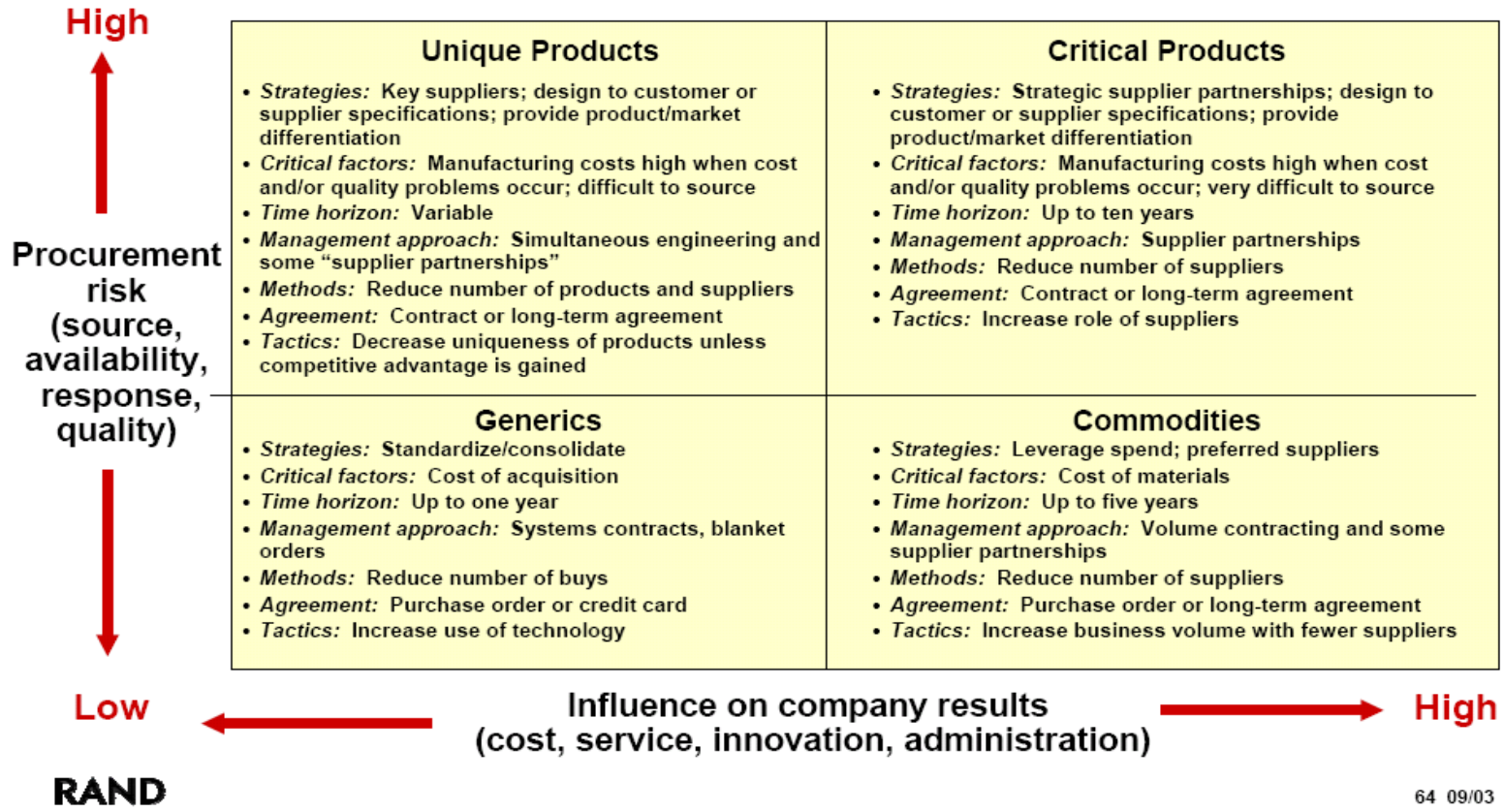
Completed Commodity Council Position Descriptions & Core Docs

MGB reviewed initial CAMPs:

- **LG Sole Source –** *approved*
- **LG Competitive –** *approved with comment*
- **SE Honeywell –** *approved with comments*
- **SE Oscilloscopes –** *approved*

Strategy Development

Leading Firms Segment their Spend and Tailor Their Supply Management Strategies


High
Procurement risk (source, availability, response, quality)
Low
Unique Products
• Strategies: Key suppliers; design to customer or supplier specifications; provide product/market differentiation
• Critical factors: Manufacturing costs high when cost and/or quality problems occur; difficult to source
• Time horizon: Variable
• Management approach: Simultaneous engineering and some "supplier partnerships"
• Methods: Reduce number of products and suppliers
• Agreement: Contract or long-term agreement
• Tactics: Decrease uniqueness of products unless competitive advantage is gained
Critical Products
• Strategies: Strategic supplier partnerships; design to customer or supplier specifications; provide product/market differentiation
• Critical factors: Manufacturing costs high when cost and/or quality problems occur; very difficult to source
• Time horizon: Up to ten years
• Management approach: Supplier partnerships
• Methods: Reduce number of suppliers
• Agreement: Contract or long-term agreement
• Tactics: Increase role of suppliers
Generics
• Strategies: Standardize/consolidate
• Critical factors: Cost of acquisition
• Time horizon: Up to one year
• Management approach: Systems contracts, blanket orders
• Methods: Reduce number of buys
• Agreement: Purchase order or credit card
• Tactics: Increase use of technology
Commodities
• Strategies: Leverage spend; preferred suppliers
• Critical factors: Cost of materials
• Time horizon: Up to five years
• Management approach: Volume contracting and some supplier partnerships
• Methods: Reduce number of suppliers
• Agreement: Purchase order or long-term agreement
• Tactics: Increase business volume with fewer suppliers
Influence on company results (cost, service, innovation, administration)
High
RAND
64 09/03

SOURCE: Adapted from John Deere, "Sourcing Strategies," Supply Management Strategies, 1997.

Commodity Council Eight-Step Process

Strategy Development and Execution

How will our strategies be different?

- ***Short answer: Depends on analysis***
- ***8 Step process a framework***
- ***Notional Examples***

Strategy Optimization

(Notional)

Supply Base

- **Current Environment**
  - Large Supply Base
    - **2000 Vendors/ 7,200 Items**
    - **75% of vendors supply three or fewer items**
  - No long-term agreements
- **Current Market Assessment**
  - Competitive Market
  - Many vendors
  - Small Business Opportunities
- **Future Strategy**
  - Competitive long-term contracts
  - Consolidate sourcing for similar items
  - Increase small business spend
  - Incentives to reduce lead-time

Configuration

- **Current Environment**
  - 150+ configurations
  - Individual orders
  - Three primary suppliers, but few Long-term contracts
  - Steady forecasted demand
  - Related requirements purchased separately
- **Market Assessment**
  - Commercial product
  - Requirements satisfied by three configurations
- **Future Strategy**
  - Utilize three configurations for standardization
  - Long-term contracts w/competitively selected suppliers

Demand Reduction

(Notional)

- **Current Environment**
  - 150 items, contract repair spend totaling $25M - $30M forecasted
  - Mean-time between failures (MTBF) is decreasing
  - No root cause for the trend identified
  - Customers demanding better reliability
- **Current Market Assessment**
  - Limited Sources, many sole source
  - Many items repaired by OEM
- **Future Strategy**
  - Cooperative effort between suppliers and customers to determine root causes
  - Pursue Long-term performance-based agreements to incentivize MTBF improvement
- **Execute/Monitor Strategy**

Consolidated Contract Strategy

(Notional)

- **Current Environment**
  - OEM has 30 selling units under corporate umbrella
  - Provides 1200 stock numbers across 8 commodity groups
  - 600 contracts and $600M in total spend with AFMC
  - Known source for 500 forecasted stock numbers, $200M spend
  - Averaging 130 days ALT and 250 days PLT
- **Current Market Assessment**
  - Supplier interested in corporate-level contracts
  - Supplier aligned in four principle market segments
- **Future Strategy**
  - Align contracts with commodity and market requirements
  - Consolidate requirements to fewer long-term strategic contracts
- **Execute/Monitor Strategy**
  - Collaborative forecasting and incentives to reduce lead time

Expected Outcomes

- *Benefits to the Warfighter*
  - More responsive to mission demands
  - Lower cost products
  - On time deliveries
  - Fewer items in depots, more at the field units
  - High quality products

- *Benefits to the Air Force*
  - Easier to execute purchasing arrangements
  - Reduced cycle times
  - Less transaction “thrash”
  - Lower Unit Prices
  - Accountable to AF Corporate Structure

- *Benefits to Suppliers*
  - More predictable, longer-term business
  - Strategic, focused relationship with AFMC
  - Fewer, higher-value contracts
  - Lower overhead costs